

An Economic Perspective on Tax Modernization July 6, 2006

Bureau of Business and Economic Research
West Virginia University
Center for Business and Economic Research
Marshall University



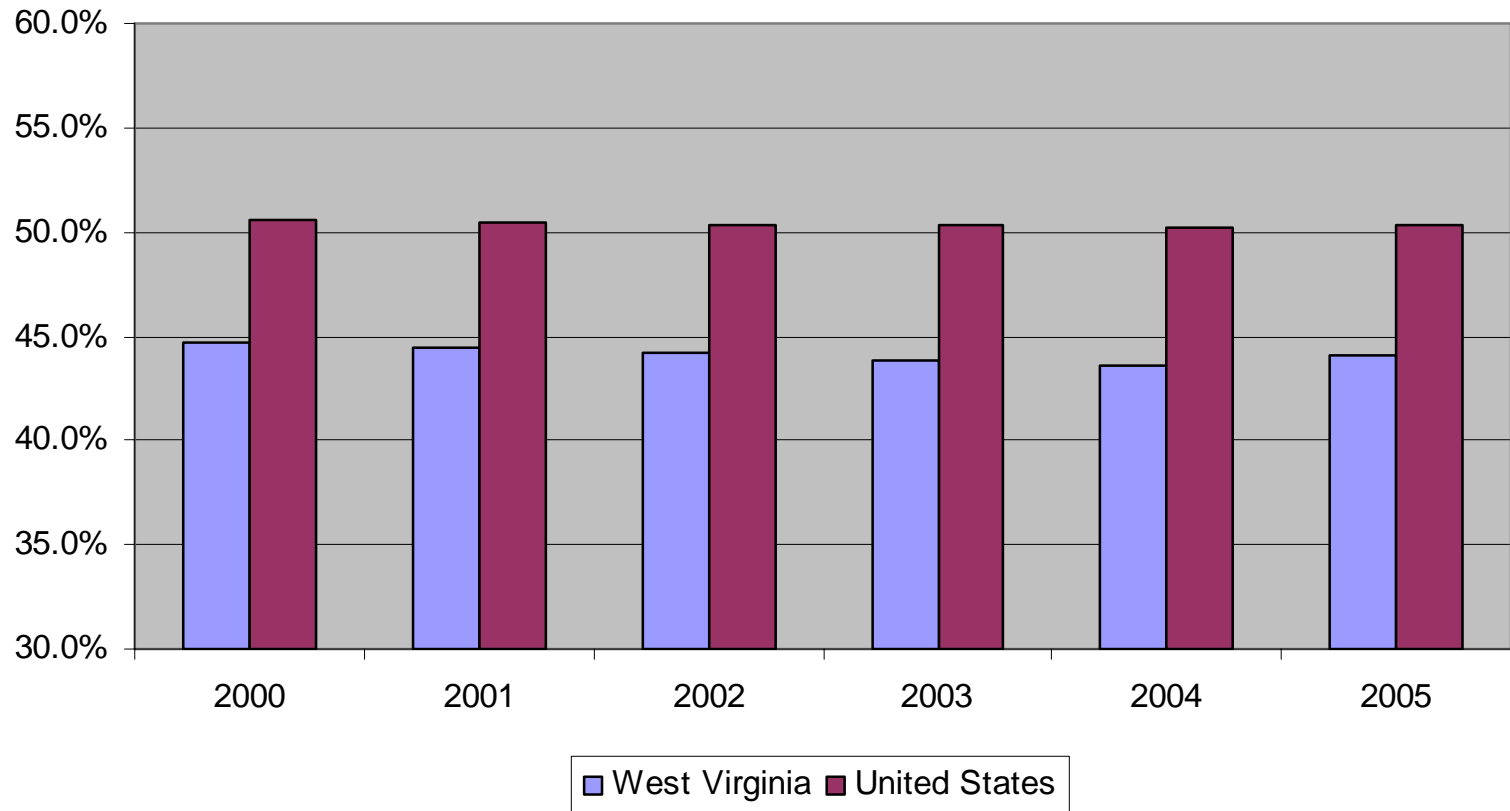
Key Points

- West Virginia's Economic Outlook
- Standards of a Good Tax System
- Research Issues

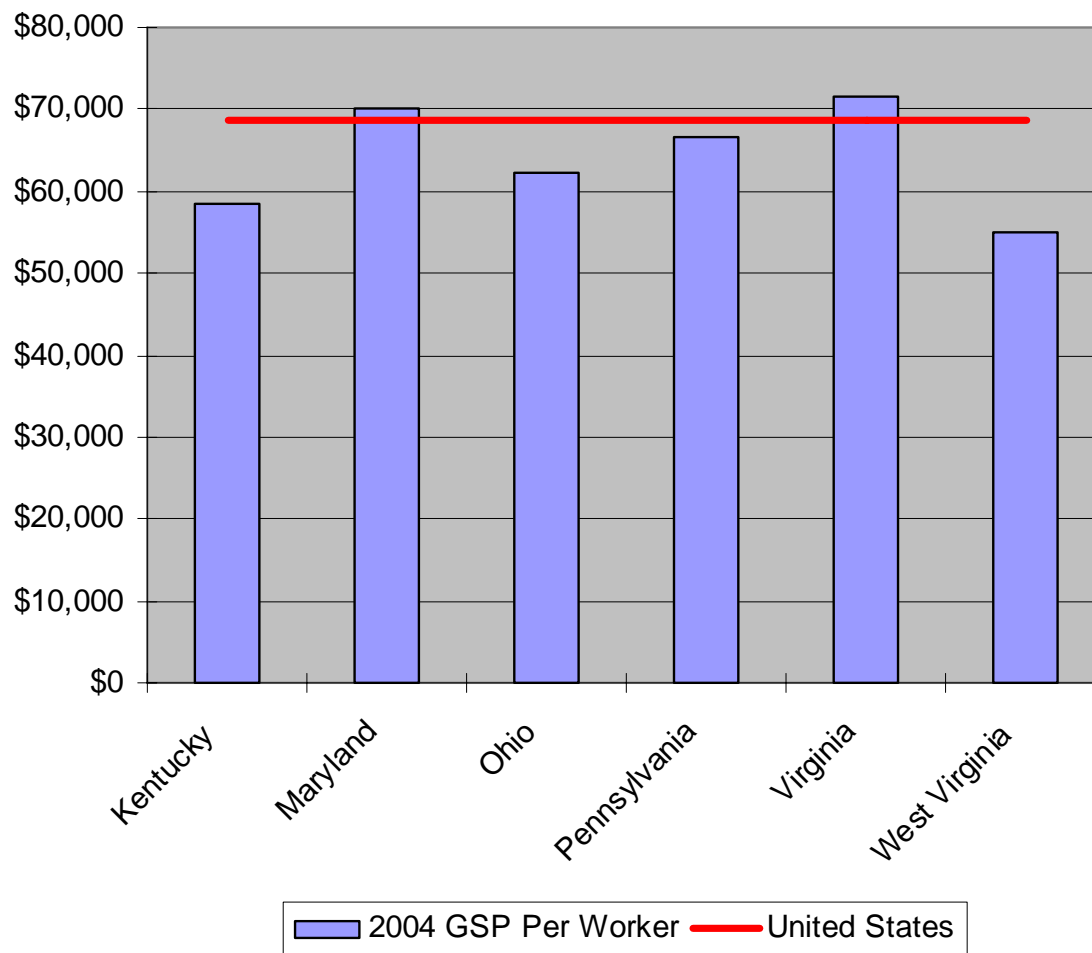
West Virginia Population Outlook

- Compared to Surrounding States West Virginia
 - Population stable and not projected to grow
 - Lowest percent of population under 5 years of age
 - Highest median age
 - Population aging in place
 - Lowest human capital per person since low educational attainment levels

Labor Force Participation Rates 2000-2005



Gross State Product Per Worker, 2004



West Virginia's Economic Outlook

- West Virginia's economic growth will be positive but below national growth
- While per capita income continues to grow, the gap with the national pci slowly narrows
- North Central and Eastern Panhandle continue to grow, while rural isolated counties continue slow decline

Standards of a Good Tax System

Efficiency

- Encourages economic growth and job creation
- Competitive with other states

Standards of a Good Tax System

Equity/Fair

- Ability to Pay
 - Current Income (Federal/WV Personal Income Tax)
 - Wealth (Property Tax, Death Taxes)
 - Consumption (Sales Tax, Value Added Tax)

Standards of a Good Tax System

Equity/Fair

- Benefits Received
 - General benefits from government (all taxes, particularly business taxes)
 - Specific benefits let those who benefit pay for the provision (gasoline tax)

Standards of a Good Tax System

Equity/Fair

– Neutrality

- Taxes should interfere as little as possible with market decisions
- Avoid taxes which distort economic outcomes

Standards of a Good Tax System

Revenue Adequacy

- Produces a yield that is significantly in excess of collection costs
- Produces a yield that is sufficient to meet the demands of government
- Produces a yield that is stable and increases with growth of the economy

Standards of a Good Tax System

Simplicity/Accountability

- Easy for the taxpayer to know
 - On what he/she/they are paying
 - How to calculate the amount to be paid
 - When it is to be paid and to whom
- Ease of Administration
- Transparency
 - Public has sufficient knowledge to evaluate the system

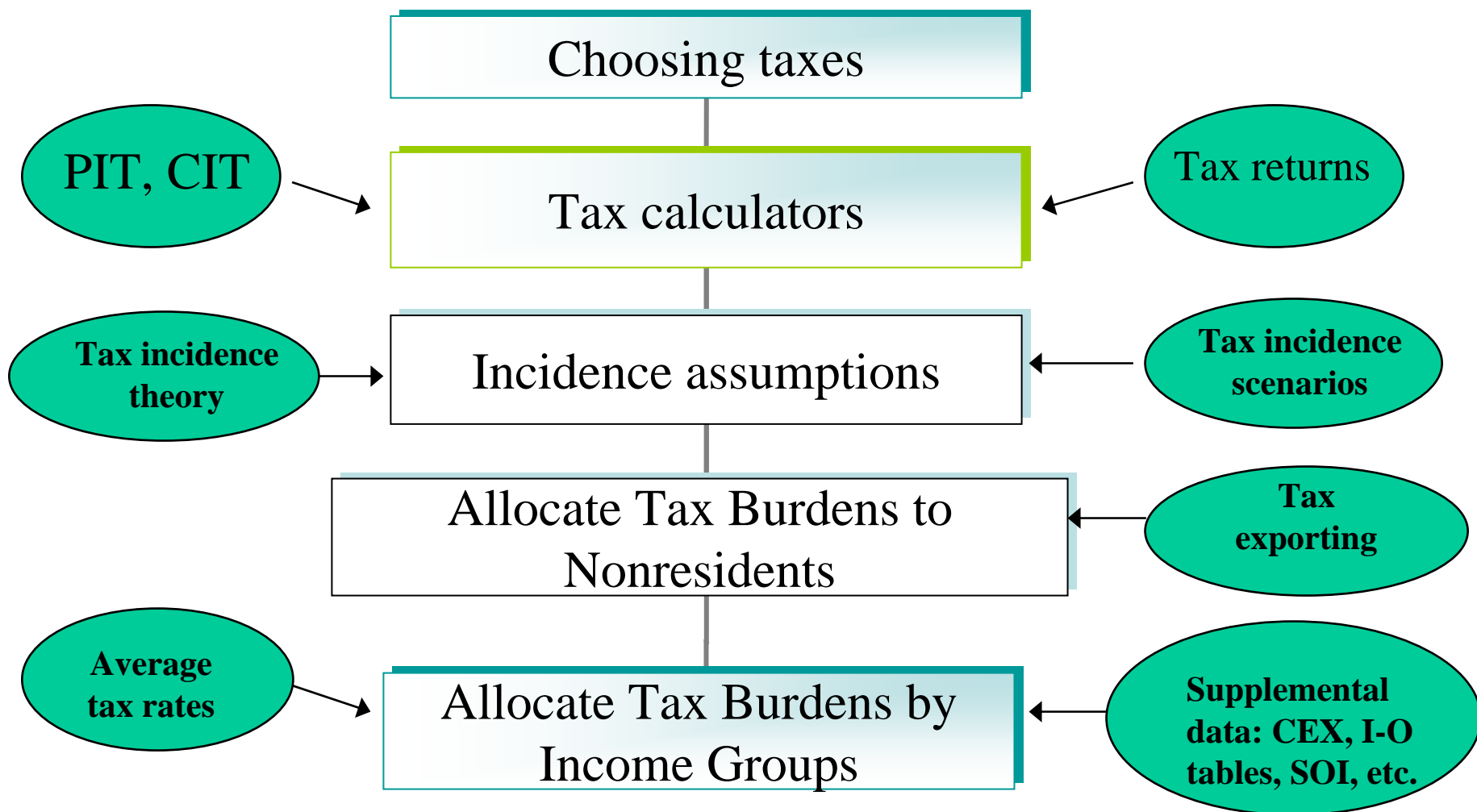
Economic Research Issues Associated With Tax Modernization

- Tax Incidence
- Revenue Estimation
- Compliance With Standards of A Good Tax System

Who Pays The Taxes?

- Who bears the burden?
- Where is the incidence ultimately?
- Can the tax be exported?
- How do economists establish the incidence of taxes?

General Procedures of Estimating Tax Incidence



Tax Research

- Personal Income Tax Calculator-completed
- Corporate Net Income Tax Calculator-under development
- Revenue Estimation Models
 - Static
 - Dynamic
- Implication for capital formation and employment growth

Relationship Between Taxes and Capital Formation

- World economy characterized by capital surplus with few barriers to capital investments
- Critical factors affecting business location
 - Access to markets
 - Human capital
 - Energy
 - Land and facilities
 - Transportation networks
 - Quality of life
 - At the margin, however, is the return on investment
- Impact of capital formation on job creations

West Virginia Taxes On Capital and Their Impacts

- Corporate net income tax
- Business franchise tax
- Business property tax
- Other taxes and fees
- Role of tax expenditures-are they effective in over coming current tax system?
 - Law of unintended consequences
- Importance of predictability and certainty

Score Card for WV Taxes

Tax	Equity	Efficiency	Adequacy	Accountability
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